

## SECOND QUARTER 2005: THE ECONOMY AND SMALL BUSINESS

### Trends

- The overall economy continued to expand and create new jobs in the second quarter of 2005. Real gross domestic product grew at an annualized rate of 3.3 percent—the ninth consecutive quarter of real GDP growth over three percent. The components of GDP, though, showed mixed results from the first to the second quarter of this year. Real personal consumption and real exports were higher, but real gross private fixed investment was slightly lower. Importantly, industrial production and proprietors' income have both continued to grow throughout 2005.
- Consumers and small businesses remained upbeat as the second quarter ended. Both the National Federation of Independent Business's Optimism Index and the University of Michigan's Consumer Sentiment Survey were higher in June than in April.
- The unemployment rate has dipped to 5.0 percent—its lowest point since September 2001. The U.S. economy has created 1.1 million net new jobs so far this year, with 584,000 of those stemming from the second quarter. The four industries with the largest percentage of small business employment—construction, other services, wholesale trade, and leisure and hospitality—added 210,200 net new jobs during the quarter. Every industry with the exception of manufacturing gained employment between March and June. Both incorporated and unincorporated self-employment has remained relatively flat during the quarter, according to the Current Population Survey.
- Interest rates continued to increase, reflecting the Federal Reserve's efforts to stabilize a growing economy. Comparing the second quarters of last year to this year, variable rates for small loans of less than \$100,000, for instance, increased from 4.2 to 5.7 percent and from 6.1 to 7.1 percent for short-term loans of less than one month and one month to less than year, respectively. Other rates rose similarly. According to the Senior Loan Officer's Survey, though, small firm lending remains strong. Meanwhile, venture investment deals grow at a consistent pace, \$5.8 billion in the second quarter.
- The price of West Texas crude reached \$56.26 a barrel in June, an increase of nearly \$2 from March and significantly higher than the average in previous years. Despite high energy costs, however, consumer and producer prices rose only modestly in the second quarter. In the labor market, private sector wages and salaries have risen 1.2 percent in the first two quarters of this year, whereas private sector benefits have jumped 1.9 percent.

### Small Business Indicators

	Last five years					Last five quarters				
	2000	2001	2002	2003	2004	Q2-04	Q3-04	Q4-04	Q1-05	Q2-05
Business bankruptcy filings (thousands)	35.5	40.1	38.5	35.0	34.3	8.2	7.6	7.8	8.1	--
Proprietors' income (billions of current dollars)	728.4	771.9	768.4	810.2	889.7	898.4	889.1	900.9	917.9	942.4
Prime bank loan rate	9.2	6.9	4.7	4.1	4.3	4.0	4.4	4.9	5.4	5.9
Rates for smallest loans (less than \$100,000):										
Variable rate loans, repricing terms of 2-30 days	9.7	7.4	5.1	4.4	4.4	4.2	4.6	4.5	5.3	5.7
Variable rate loans, repricing terms of 31-365 days	9.9	8.7	6.6	6.4	6.2	6.1	6.3	6.5	6.6	7.1
Senior loan officers (percent of respondents):										
Net small firm C&I lending standards (those whose standards were eased minus those tightened)	-20.4	-39.4	-20.0	-7.1	+13.1	+19.6	+3.7	+18.2	+9.1	+22.7
Net small firm demand for C&I loans (those whose demand was stronger minus those weaker)	-3.3	-36.6	-40.0	-14.7	+25.9	+38.1	+38.9	+25.5	+13.7	+45.5
Venture investment: number of deals	7819	4453	3046	2840	2910	805	646	787	703	750
Venture investment: total invested (billions of dollars)	105.0	40.8	21.7	19.4	21.3	6.1	4.6	5.6	4.9	5.8

Note: The second quarter figure for the Senior Loan Officers Survey is for April, which measures from January. C&I loans refers to commercial and industrial loans. Sources: Administrative Office of the U.S. Courts; Board of Governors of the Federal Reserve System; National Venture Capital Association; U.S. Bureau of Economic Analysis.

	Last five years					Last five months (2005)				
	2000	2001	2002	2003	2004	Feb	Mar	Apr	May	June
NFIB Small Business Optimism Index (1986 = 100)	100.3	98.4	101.2	101.3	104.6	103.7	102.5	99.8	100.8	100.8
NFIB: next 3 months "good time to expand" (percent of respondents)	19.2	12.3	14.3	15.7	22.3	24	19	18	18	22
NFIB: net percent planning to hire in the next 3 months	15.6	11.6	10.8	10.2	15.3	16	10	11	15	13
Self-employed, incorporated (millions)	4.5	4.5	4.6	5.0	5.2	5.1	5.4	5.5	5.4	5.3
Self-employed, unincorporated (millions)	10.2	10.1	9.9	10.3	10.4	10.6	10.7	10.8	10.7	10.5

Sources: National Federation of Independent Business; Current Population Survey, U.S. Bureau of Labor Statistics

Released August 24, 2005

For previous quarterly indicators, visit <http://www.sba.gov/advo/research/sbei.html>. Note that data are revised periodically, and this version reflects such changes.

## Employment by Major Sector (millions)

	Percent small business	Last five years					Last five months (2005)				
		2000	2001	2002	2003	2004	Feb	Mar	Apr	May	June
<b>Goods-producing industries</b>	<b>48.41</b>	<b>24.65</b>	<b>23.87</b>	<b>22.55</b>	<b>21.81</b>	<b>21.88</b>	<b>22.07</b>	<b>22.09</b>	<b>22.13</b>	<b>22.14</b>	<b>22.14</b>
Natural resources and mining	38.24	0.60	0.61	0.58	0.57	0.59	0.61	0.62	0.62	0.62	0.63
Construction	96.15	6.79	6.83	6.71	6.73	6.96	7.13	7.16	7.21	7.22	7.23
Manufacturing	42.34	17.27	16.44	15.26	14.51	14.33	14.32	14.32	14.30	14.30	14.28
<b>Service-producing industries</b>	<b>55.03</b>	<b>107.14</b>	<b>107.96</b>	<b>107.79</b>	<b>108.19</b>	<b>109.59</b>	<b>110.81</b>	<b>110.90</b>	<b>111.16</b>	<b>111.28</b>	<b>111.44</b>
Trade, transportation and utilities	52.32	26.22	25.99	25.50	25.29	25.51	25.71	25.74	25.80	25.84	25.85
Wholesale trade	62.79	5.93	5.77	5.65	5.61	5.65	5.69	5.70	5.71	5.72	5.72
Retail trade	42.92	15.28	15.24	15.02	14.92	15.04	15.13	15.13	15.16	15.19	15.20
Information	25.56	3.63	3.63	3.39	3.19	3.14	3.13	3.13	3.15	3.15	3.15
Financial activities	39.73	7.69	7.81	7.85	7.98	8.05	8.17	8.17	8.18	8.19	8.21
Professional and business services	44.83	16.67	16.48	15.98	15.99	16.41	16.78	16.80	16.84	16.85	16.91
Education and health services	47.84	15.11	15.65	16.20	16.59	16.95	17.19	17.21	17.24	17.29	17.33
Leisure and hospitality	61.43	11.86	12.03	11.99	12.18	12.48	12.65	12.66	12.72	12.74	12.76
Other services	86.16	5.17	5.26	5.37	5.40	5.43	5.46	5.46	5.47	5.47	5.48
Government	0	20.79	21.12	21.51	21.58	21.62	21.73	21.73	21.75	21.75	21.76

Notes: Seasonally adjusted. See <http://www.bls.gov/ces/cessuper.htm> for NAICS code equivalents for each sector. The small business percentage by sector is based on 2002 firm size data. See [http://www.sba.gov/advo/stats/us\\_02\\_n6.pdf](http://www.sba.gov/advo/stats/us_02_n6.pdf) for more information.

Sources: U.S. Small Business Administration, Office of Advocacy, using data from the U.S. Department of Commerce, Bureau of the Census; U.S. Department of Labor, Bureau of Labor Statistics.

## Macroeconomic Indicators

	Last five years					Last five quarters				
	2000	2001	2002	2003	2004	Q2-04	Q3-04	Q4-04	Q1-05	Q2-05
Annual change, real gross domestic product	3.7	0.8	1.6	2.7	4.2	3.5	4.0	3.3	3.8	3.3
Real personal consumption expenditures (billions)*	6739.4	6910.4	7099.3	7306.5	7588.6	7536.6	7617.5	7698.8	7764.9	7828.3
Real gross private fixed investment (billions)*	1679.0	1629.4	1548.9	1627.4	1794.4	1813.0	1833.4	1863.9	1902.9	1879.0
Federal government surplus or deficit (billions)	189.5	46.7	-247.9	-382.8	-406.5	-413.5	-411.6	-371.6	-293.5	--
Real exports of goods and services (billions)*	1096.3	1036.7	1013.3	1031.2	1117.9	1110.2	1125.0	1144.5	1165.3	1200.3
Real imports of goods and services (billions)*	1475.8	1435.8	1484.6	1552.6	1719.2	1711.9	1731.5	1778.6	1810.7	1801.6
Corporate profits after tax (billions)	552.8	563.2	693.7	799.7	890.3	887.3	858.2	926.4	925.6	--
Nonfarm business sector output per hour for all persons (1992 = 100)	115.5	118.5	123.3	128.0	132.3	132.2	132.7	133.5	134.5	135.3
Employment Cost Index: private sector wages and salaries (1989 = 100)	146.0	151.4	156.4	160.9	165.0	164.5	165.7	166.4	167.2	168.4
Employment Cost Index: private sector benefits (1989 = 100)	156.0	163.7	171.7	182.5	195.4	194.1	196.7	199.9	202.0	203.6

\*Chained 2000 dollars.

Note: Seasonally adjusted.

Sources: U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics.

	Last five years					Last five months (2005)				
	2000	2001	2002	2003	2004	Feb	Mar	Apr	May	June
Unemployment rate (seasonally adjusted)	4.0	4.8	5.8	6.0	5.5	5.4	5.2	5.2	5.1	5.0
Civilian employment—16 years and older (millions, seasonally adjusted)	136.9	136.9	136.5	137.7	139.2	140.1	140.5	141.1	141.5	141.6
Civilian unemployed—15 weeks and over (millions, seasonally adjusted)	1.3	1.8	2.9	3.4	3.1	2.9	2.8	2.7	2.7	2.4
Nonfarm payrolls (millions, seasonally adjusted)	131.8	131.8	130.3	129.9	131.3	132.9	133.0	133.3	133.4	133.6
Producer Price Index (1982 = 100)	132.7	134.2	131.1	138.1	146.7	151.6	153.6	155.0	154.4	154.1
Consumer Price Index (seasonally adjusted, 1982 = 100)	172.2	177.0	179.9	184.0	188.9	192	193.2	194.2	194.1	194.1
Consumer Sentiment Survey (1966 = 100)	107.6	89.2	89.6	87.6	95.2	94.1	92.6	87.7	86.9	96.0
Spot oil price per barrel: West Texas intermediate crude	30.30	25.92	26.10	31.14	41.44	47.97	54.31	53.04	49.83	56.26
ISM Purchasing Managers Index—manufacturing composite (seasonally adjusted)	51.7	43.9	52.4	53.3	60.5	55.3	55.2	53.3	51.4	53.8
Industrial production (1997 = 100, seasonally adjusted)	115.4	111.3	111.0	110.9	115.5	118.3	118.6	118.2	118.6	119.7
M2 money stock (billions, seasonally adjusted)	4798.2	5214.9	5609.5	5997.1	6269.1	6451.6	6472.3	6469.1	6470.3	6502.6
3-month Treasury bills (secondary market rate)	5.82	3.39	1.60	1.01	1.37	2.54	2.74	2.78	2.84	3.22
10-year Treasury note (constant maturity rate)	6.03	5.02	4.61	4.02	4.27	4.17	4.50	4.34	4.14	4.18

Sources: Board of Governors of the Federal Reserve System; Dow Jones Energy Service; Institute for Supply Management; U.S. Department of Labor, Bureau of Labor Statistics; University of Michigan's Survey of Consumers.

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